

October 15, 2004

Important Update On Impending BPA Action

On November 4th, the Bonneville Power Administration (BPA) intends to vote on by-laws for a new Northwest transmission organization called Grid West. Because BPA has prepared no study on the costs, benefits and alternatives to Grid West, the undersigned Northwest public utilities commissioned Henwood Energy Services to prepare a study of the costs and benefits of a new regional transmission organization *before* the vote on the by-laws

We are pleased to enclose a full copy of the report. An electronic copy can be obtained at www.snopud.com. **In summary, Henwood's report concludes that Grid West would mean a net cost to Northwest electricity ratepayers of over \$122 million a year.** In a statement last week, BPA said the Henwood study was premature because the details of Grid West are not known. However, in light of both this study and the lack of detail regarding Grid West that BPA itself acknowledges, it is clear just how premature and risky a vote in favor of the bylaws on November 4th is for our region.

Although BPA states that it can withdraw from Grid West, the bipartisan chairs of the U.S. House of Representatives Northwest Energy Caucus said that a withdrawal option is unworkable—the region cannot count on it. U.S. Reps. Peter DeFazio (D- Ore.) and George Nethercutt (R-Wash.) raised significant concerns about the proposed by-laws in a September 13th letter and said, **“we don't consider the threat of withdrawal to be comforting or to offer very compelling protection for consumers for the simple reason that we don't think it will ever be exercised.”**

The only prudent course is for BPA and the Grid West Regional Representative Group (RRG) to step back and take time to comprehensively define the proposed Grid West design, and then study in detail the costs and benefits of Grid West compared to the costs and benefits of alternatives to an RTO. There are several other critical issues raised in the Congressional letter that also need to be answered including whether FERC will have jurisdiction over Grid West. We also question whether BPA has the legal authority to vote for a Grid West organization without express Congressional delegation authority to do so. Those fundamental issues remain unanswered.

Last week FERC staff released a report on RTO costs that raised more questions than it answered. It only serves to underscore our concerns that the costs and benefits of Grid West have not been adequately addressed by BPA. It also raises fresh concerns that FERC is trying to rush a decision that this region needs to carefully evaluate and that might subject us to FERC's jurisdiction. **The track record of existing RTOs approved by FERC is one of increased costs and unaccounted benefits.** RTOs were a central part of FERC's plan to deregulate the electricity industry. Deregulation set the stage for the West Coast energy crisis that caused

enormous economic losses that we will be paying for years to come. We need to learn from that lesson and take the time to consider the costs and alternatives to this proposed Grid West.

In the interim, other groups are developing ideas to improve transmission services and transmission grid management. The Transmission Issues Group (TIG), which is composed of public and private utilities throughout the region, has developed the outline of a near-term, low-cost plan to address many of the transmission issues being experienced in the Northwest today. BPA has participated in that group, and we encourage BPA to continue to do so.

We will prepare a more detailed response to the FERC study over the next few weeks, but a preliminary review suggests that the FERC study is seriously flawed. It ignores the actual experience of existing high cost RTOs by using an unrealistic theoretical ideal RTO. FERC's staff took a select subset of existing RTOs and attempted to parse out what it called "Day One" costs. Instead of attempting to estimate the costs of a fictitious and static Day One RTO, the Henwood study incorporated the more realistic and instructive analysis by the Public Power Council of the actual cost experience of all of the nation's RTOs. This approach is more appropriate given that not one RTO has remained at Day One functionality, and not one RTO has been able to hold costs down over time. The actual facts show that:

- **Since 2000, total U.S. RTO operating expenses have increased by 143%, and are growing at an annualized rate of 20% per year**
- **All RTOs have advanced beyond Day One functionality**
- **Every RTO now employs at least 400 FTEs**

In summary, we agree with the Congressional letter that withdrawal is not a practical or workable option. **If bylaws are approved November 4th, it will be too late to consider the costs and alternatives in an objective way.** If it is difficult to get BPA to postpone a vote now, how much more difficult will it be to get BPA to later acknowledge that Grid West is a mistake and to withdraw? It is incumbent on BPA to answer fully the questions on costs, benefits, legal authority, the risks of FERC jurisdiction, and whether there are less costly alternatives before it votes on Grid West by-laws. The Henwood study proposes a work plan for a study of alternatives. TIG has presented the outline of one set of solutions that could be adopted. The region needs to take the time to review the costs, benefits and alternatives to Grid West before it votes on the by-laws, not after.

Sincerely,

**Snohomish County PUD
Benton County PUD
Clallam County PUD
Peninsula Light Company
Douglas County PUD
Lewis County PUD
Grant County PUD**

**Benton REA
City of Ellensburg
Kittitas County PUD
Mason County PUD No. 3
Pacific County PUD No. 2
Grays Harbor PUD**